

Section .08G(3)(c). Availability of More Cost-Effective Alternatives.

For purposes of evaluating an application under this subsection, the Commission shall compare the cost-effectiveness of providing the proposed service through the proposed project with the cost-effectiveness of providing the service at alternative existing facilities, or alternative facilities which have submitted a competitive application as part of a comparative review.

Please explain the characteristics of the Project which demonstrate why it is a less costly or a more effective alternative for meeting the needs identified.

For applications proposing to demonstrate superior patient care effectiveness, please describe the characteristics of the Project which will assure the quality of care to be provided. These may include, but are not limited to: meeting accreditation standards, personnel qualifications of caregivers, special relationships with public agencies for patient care services affected by the Project, the development of community-based services or other characteristics that the Commission should take into account.

Approving Holy Cross's proposal to construct a new hospital in Germantown, on the campus of Montgomery College, will create appropriate hospital capacity to meet the needs of Montgomery County's upcounty population. This project will also significantly increase the availability of health care workers to meet the growing demand for hospital-based services.

Holy Cross's new hospital project is a far better alternative than the competing proposal filed by AHC because the Holy Cross project will: (1) meet the upcounty need for hospital capacity without impacting volumes at existing hospitals; (2) improve geographic accessibility; (3) be more environmentally sensitive; and (4) build on Holy Cross's better record of providing hospital-based services efficiently.

The Holy Cross proposal is also the more effective alternative because Holy Cross has the financial ability to implement its proposed project, while AHC does not. In addition, as the first hospital in the nation to be constructed on a community college campus, approval of the Germantown new hospital proposal will significantly increase the training and availability of health care workers, while approval of the ACH proposal will not.

The proposed Germantown hospital project will meet upcounty needs without replicating existing capacity.

Inpatient capacity at existing hospitals is not adequate to accommodate projected growth in the Germantown ESA. SGAH recently filed a CON application proposing to add 48 MSGA beds. That application cannot be docketed and that project cannot be considered, however, until the pending comparative review is resolved.

Moreover, the SGAH project proposes to locate 44 of the proposed 48 MSGA beds in semi-private rooms. In light of current hospital design standards and concerns about patient safety and satisfaction, adding capacity in this manner is not an appropriate way to increase an inpatient capacity.

Furthermore, adding capacity in this manner allows SGAH to perpetuate and expand its dominant position in upper Montgomery County. SGAH's market share in its PSA is already 58%. In 16 ZIP codes, SGAH's market share is 40% or greater. In 14 of these ZIP codes, Shady Grove's market share is at least twice as great as that of its closest competitor. See Holy Cross's Response to Comments at 18-19.

As shown in Holy Cross's impact analysis, the Germantown hospital will achieve full utilization without reducing volume at any existing hospital. See CON Application at 114, Impact on Existing Providers .08G(3)(f). Approximately forty percent of the Germantown hospital's volume will be upcounty residents who currently receive care at Holy Cross Hospital in Silver Spring. This shift of cases to the new hospital in Germantown will "free up" capacity at Holy Cross Hospital in Silver Spring to accommodate the growth projected for that hospital's service area. The balance of the capacity at the new hospital in Germantown will serve the growing and aging population in the Germantown hospital's ESA. As related in the need analysis filed in conjunction with the modifications to the Holy Cross application, 36 of the MSGA beds to be implemented at the new hospital in Germantown hospital will be used to support population growth in the new hospital's ESA.

In contrast, as shown in Holy Cross's Comments on AHC's Clarksburg new hospital application, 70% of the Clarksburg hospital's MSGA volume and 89% of its obstetric volume in its PSA will be redirected from existing hospitals. See Holy Cross Comments at 21-23.

The proposed Germantown hospital project offers better geographic accessibility than the proposed Clarksburg hospital project and targets a unique service area with greater socio-economic need.

As was evident during the April 14, 2009 site visit, the proposed Germantown hospital is accessible from the south via the Middlebrook Road interchange of I-270, and from either direction via the Germantown Road (Route

118) interchange or Route 355, Frederick Road, a major north-south artery serving the Germantown area.

The Germantown site is the optimal location for serving the Germantown hospital ESA, which includes all of the upcounty area north of Rockville. See Holy Cross CON Application at 15. As demonstrated in Holy Cross's Response to the New Acute Care Standards, the Germantown site is less than 15 minutes from the largest, most densely populated and neediest ZIP codes in the new hospital's ESA. See Response to New Standards at 5-6.

Table 1						
Characteristics of the Germantown hospital ESA Relative to Accessibility Sorted by Travel Time from New Hospital						
	ZIP Code	City Name	Minutes from New Hospital	2017 Population (projected)	Density (Pop. Per Sq. Mile)/2017	Community Need Index
Less than 15 minutes from new hospital	20876	Germantown	2	24,127	1,962	2.4
	20874	Germantown	7	64,418	3,303	2.4
	20841	Boysds	10	7,347	267	1.8
	20886	Montgomery Village	11	29,957	6,126	2.6
	20879	Gaithersburg	12	27,076	3,525	2.4
	20871	Clarksburg	12	9,382	440	1.4
	20872	Damascus	13	13,139	617	1.8
	20877	Gaithersburg	14	35,332	5,928	3.8
	20850	Rockville	14	54,098	3,783	2.8
More than 15 minutes from new hospital	20878	Gaithersburg	16	68,634	3,449	2.4
	20882	Gaithersburg	16	17,141	442	1.6
	20855	Derwood	17	18,530	1,296	2.2
	20838	Barnesville	20	243	147	1.8
	20851	Rockville	22	16,610	7,068	1.8
	20853	Rockville	24	28,484	3,172	1.8
	20839	Beallsville	26	517	277	2.8
	20837	Poolesville	26	6,627	156	1.6
	20842	Dickerson	27	2,372	39	2.4
Median			15	17,836	1,629	2.3

Minutes from new hospital are from MapQuest

2017 population projections are based on 2008 -2013 population growth rates by ZIP applied to 2013 population by ZIP. The source is Claritas data provided by Thomson Reuters (Medstat).

Land area (square miles) per ZIP code used to calculate density are from csgnetwork.com

Data and methodology for the Community Need Index (CNI) were supplied by the Healthcare Business of Thomson Reuters. Catholic Healthcare West (CHW) contributed to the development of the methodology as well. Any analysis, interpretation, or conclusion based on these data is solely that of the authors, and CHW and Thomson Reuters disclaim any responsibility for any such analysis, interpretation, or conclusion.

Accessibility will be particularly improved for residents of the new hospital's ESA who currently travel for care to Holy Cross Hospital in Silver Spring, as they will be able to obtain care at the new hospital in Germantown. Holy Cross anticipates that nearly 40% of the 6,396 inpatients to be served by the new hospital in its third year of operation ($2,369 / 6,396 = .37$) will be patients who otherwise would have traveled for care to Holy Cross Hospital in Silver Spring. This group of ESA residents will include Maternity Partnership patients (uninsured pregnant women), who are currently referred to Holy Cross Hospital in Silver Spring. In that regard, in FY09 the number of Maternity Partnership patients referred to Holy Cross Hospital in Silver Spring by the Germantown Service Center increased to 1,059 patients compared to 776 referrals in FY08.

While the projected service areas of the Germantown and Clarksburg hospitals overlap significantly, the demographic characteristics of the unique ZIP codes of each proposed hospital are quite different. See Holy Cross's Response to Comments at 5-8. As shown below, the unique areas to be served only by the Germantown hospital (including Gaithersburg, Montgomery Village and parts of Rockville) have a more racially and ethnically diverse population, a larger percentage of people who do not speak English very well, a higher rate of unemployment, and a higher overall score on the Thomson-Reuters Community Need Index, compared to the unique areas to be served by AHC's Clarksburg hospital proposal, i.e. southern Frederick County.

**Comparison of Demographic Characteristic -
Unique Germantown ZIP codes vs. unique Clarksburg ZIP codes**

	<u>Germantown</u>	<u>Clarksburg</u>
White, non-Hispanic	51.6%	88.3%
Hispanic	16.3%	3.2%
Black, non-Hispanic	12.0%	4.5%
Asian, non-Hispanic	17.0%	2.1%
Other	3.0%	1.8%
% who speak English less than very well	14.8%	0.9%
Percent Unemployment	3.3%	1.9%
Community Need Index Score*	2.6	1.9
(on a scale of 1-5; 5 indicating greatest need)		

As demonstrated in Holy Cross's Comments at 1-3, the Germantown hospital site is also a far better location to serve residents of the proposed Clarksburg hospital's PSA. Holy Cross's proposed hospital in Germantown would be the closest hospital for 71% of the 164,264 residents projected to live in the Clarksburg hospital PSA in 2015 ($116,523 / 164,264 = .709$). The site of the proposed Clarksburg hospital would only be the closest hospital for 16% of the residents projected to reside in its PSA in 2015 ($25,939 / 164,264 = .158$).

Travel Times within Clarksburg PSA

ZIP	ZIP City Name	Travel time in minutes from ZIP to:			Saved minutes per 1,000 population	
		2015 Pop.	Proposed Clarksburg hospital	Proposed Germantown hospital	Proposed Clarksburg hospital	Proposed Germantown hospital
20838	Barnesville	241	14	19	2.4	1.2
20839	Beallsville	503	23	26	2.5	1.0
20841	Boyd	7,029	9	9	70.3	70.3
20842	Dickerson	2,314	20	26	30.1	16.2
20871	Clarksburg	8,909	4	13	115.8	35.6
20872	Damascus	12,945	14	13	142.4	155.3
20874	Germantown	63,146	10	6	63.1	315.7
20876	Germantown	23,685	7	2	94.7	213.2
20882	Gaithersburg	16,747	18	16	33.5	67.0

21704	Urbana/Frederick*	9,824	17	24	0.0	0.0
21710	Adamstown*	4,948	18	26	0.0	0.0
21754	Ijamsville	7,332	16	23	22.0	0.0
21770	Monrovia	6,641	21	28	19.9	0.0
Total		164,264			596.8	875.6
Closest to Clarksburg hospital		25,939				
Closest to Germantown hospital		116,523				

Travel times are from MapQuest

2015 population projections are based on 2008 -2013 population growth rates by ZIP applied to 2013 population by ZIP. The source is Claritas data provided by Thomson Reuters (Medstat).

* ZIP code 21704 and 21710 remain closest to Frederick Memorial Hospital

Moreover, looking even farther into the future demonstrates that the Germantown site is far superior to the Clarksburg location. While the Montgomery County Planning Department projects that the Clarksburg population will grow only to 37,576 by the year 2040, population growth for Germantown alone is projected to be 2.6 times greater ($98,320 / 37,576 = 2.6$). Indeed, the population of Germantown and Gaithersburg together in 2040 is projected to be eight times greater than the population projected to reside in Clarksburg ($299,578 / 37,576 = 7.97$).

Population Forecast by Planning Area
Montgomery County, Maryland

Planning Area	2010	2020	2030	2040
Aspen Hill	60,611	61,104	60,308	57,439
Bennett	3,694	17,916	19,246	3,922
Bethesda/Chevy Chase	100,421	85,981	86,447	112,764
Clarksburg	13,930	33,425	37,298	37,576
Cloverly	17,731	15,826	15,992	17,656
Damascus	10,542	11,074	13,126	13,167
Darnestown	12,778	11,740	11,597	12,461
Dickerson	1,117	18,923	18,950	1,210
Fairland	42,337	74,761	73,924	39,676
Gaithersburg City	60,594	7,134	7,170	96,506
Gaithersburg Vicinity	72,794	70,170	84,529	104,762
Germantown	85,492	23,299	24,732	98,320
Goshen	11,229	2,583	4,435	11,344

Kemp Mill/4 Corners	34,204	63,545	68,296	35,053
Kensington/Wheaton	75,475	4,185	5,070	87,114
Lower Seneca	1,285	15,923	16,223	1,409
Martinsburg	461	9,391	9,561	504
North Bethesda	48,223	90,386	89,907	85,130
Olney	36,666	51,642	52,075	39,937
Patuxent	5,757	47,070	48,952	5,974
Poolesville	6,127	26,305	26,361	7,138
Potomac	45,838	34,510	35,544	47,749
Rockville	58,862	10,786	10,937	78,073
Silver Spring	43,299	9,927	10,314	54,517
Takoma Park	30,914	48,537	48,922	29,698
Travilah	26,781	9,238	19,963	25,926
Upper Rock Creek	12,732	8,066	7,921	13,469
White Oak	34,106	66,475	72,329	33,906
Montgomery County Total	954,000	1,060,400	1,122,300	1,152,400

source: *Montgomery County Planning Department, Research and Technology Center, April 2009.*

note: Forecasts are prepared as part of the Cooperative Forecasting Process of the Metropolitan Washington Council of Governments (www.mwccog.org).

Forecasts for areas within the Cities of Gaithersburg and Rockville are based on the forecasts prepared by each City under the Cooperative Forecasting Process

The proposed Germantown hospital is a better choice than the proposed Clarksburg hospital in terms of environmental impact.

Because the proposed Germantown hospital is closer to more upcounty residents than is the Clarksburg site, patients' and employees' travel times will be less to the Germantown site, resulting in less congestion and less pollution. The proposed Germantown hospital site is also well served by existing public transportation to the Montgomery College campus and along route 355. Locating a new hospital in Germantown will have a particularly significant impact in reducing travel times for the many upcounty patients who now seek care at Holy Cross Hospital in Silver Spring, as those residents will receive care at the much closer Holy Cross-sponsored hospital in Germantown.

The proposed Germantown hospital is designed and priced as a LEED Silver facility, while the Clarksburg facility is designed only to meet the minimum

county requirement of LEED certified. The Germantown design (and budget) responds to Montgomery County's new requirements relating to sustainable development, as the site will include tiered storm water retention and bio-filtration landscapes, and at least 50% of the roof surfaces will be planted as "green" roofs.

The proposed Germantown hospital project will build on Holy Cross Hospital's better record of management effectiveness.

Holy Cross's performance as a provider of hospital-based care, measured by operating margin, efficiency and quality, is far better than that of AHC. As shown below, in terms of operating margin, over the past four years, Holy Cross's has been among the "top ten" performing Maryland hospitals. During this same period, the operating margin at the two Maryland hospitals operated by AHC has ranged from a "high" of 22nd at SGAH in FY09 to a low of 43rd at WAH in FY07 and FY09.

Operating Margin - Percent and Rank among Maryland Hospitals, FY06-FY09

	FY06		FY07		FY08		FY09		4 year average	
	Operating Margin	Rank	Operating Margin	Rank	Operating Margin	Rank	Operating Margin	Rank	Operating Margin	Rank
Holy Cross	6.1%	4	5.0%	10	7.2%	7	5.2%	6	5.9%	6
Shady Grove	1.6%	30	-1.6%	42	1.2%	32	2.9%	22	1.0%	38
Washington Adventist	1.7%	29	-1.9%	43	-0.1%	40	-1.3%	43	-0.4%	44

Source: MHA FY06-09 Financial Condition Reports, Operating Profit Comparison

Holy Cross Hospital in Silver Spring is also a more efficient provider than either of the two hospitals operated by AHC. The HSCRC measures efficiency as a percent of operating expenses based on a hospital's Reasonableness of

Charges (ROC) position minus profits. As shown below, Holy Cross Hospital's costs are 8.19% below its Peer Group's average charges using the ROC adjustments. The two AHC hospitals' costs, however, are 0.53% above their Peer Group average charges using the ROC adjustments. Essentially, this means that Holy Cross is 8.72% more efficient than AHC (8.19% + .53% = 8.72%).

Comparison of Efficiency		
	Holy Cross	AHC
Net Operating Profit	\$23,552,240	\$5,827,587
Total Operating Expenses	\$329,472,259	\$510,326,897
Percent Profits	7.15%	1.14%
ROC position	-1.14%	1.67% ¹
Efficiency Measure (ROC – profits)	-8.19%	0.53%
Source: HSCRC 2009 annual disclosure (FY08 data) and current HSCRC ROC		

In terms of quality, Holy Cross outperforms AHC both in terms of the HSCRC's Quality Based Reimbursement Allowance ("QBRA"), where higher is better, and in terms of the percent of at risk revenue associated with potentially preventable complications ("PPC"), where a lower score is better.

The results of the HSCRC's quality scores are unambiguous. The HSCRC has noted how similar hospitals tend to be in its two relative rankings.

¹ SGAH's ROC position is .80% and WAH's ROC position is 3.40%. 1.67% is the weighted average where the weight for each hospital is its share of AHC's regulated revenue.

The current rankings for Holy Cross Hospital in Silver Spring, SGAH and WAH are related below.

	Holy Cross	Shady Grove	Washington Adventist
QBRA	0.8000	0.7320	0.6950
PPC	-1.49	+1.70%	+3.49%

On the QBRA, Holy Cross is 9.3% higher than Shady Grove, 15.1% higher than WAH and 12.1% higher than the unweighted average of the two AHC hospitals. For potentially preventable complications, a rating of -1.49% means a hospital's level is 98.51% of the level expected based on the state wide average for its cases. The AHC measures translate to 101.70% and 103.49% of the expected level, where more PPCs than expected is worse performance.

**Holy Cross is able to fund construction
of a new hospital, while AHC is not.**

As discussed in detail in the analysis prepared by Navigant Consulting in Holy Cross's Comments on the AHC application, AHC is in a weak financial position. The level of debt needed to support the proposed relocation of WAH and construction of a new hospital in Clarksburg is far greater than AHC can support in light of its current financial situation.

As related in the Navigant analysis, any significant capital project would strain AHC's credit outlook. At present, AHC's liquidity ratios are just above minimum covenant requirements and the debt-to-capitalization ratio is well above median hospital levels for "B" credit grades. The Moody's rating agency

noted that AHC's capital plans would further impair its credit rating and that the additional drains on liquidity could trigger a termination of AHC's interest rate swaps.

For these reasons and as more fully explained in the Navigant Report and the analysis previously provided, AHC, most likely, cannot borrow the funds needed at the rates it is projecting. Moreover, the capital costs required to finance the Clarksburg new hospital and WAH hospital relocation projects will, most likely, be significantly higher than the CON applications assume and increased interest rates would make these projects unprofitable and not viable long-term investments.

In contrast to AHC's Baa2 and Negative Outlook rating. Trinity Health has an Aa2 and Stable Outlook rating from Moody's. Trinity Health also has the necessary funds and has committed to use existing funds for the new hospital in Germantown project at a borrowing rate (5%), which is 150 basis points lower than the interest rate AHC identifies for its borrowing.

Since the HSCRC funds 50% of a hospital's actual capital costs, a reduced interest rate results in lower patient charges. Moreover, Holy Cross is unencumbered by government requirements, commitments and the risk associated with AHC claim that it will be able to use the FHA 242 program to finance construction of both the WAH relocation and Clarksburg new hospital projects.

The proposed hospital in Germantown is more effective than the proposed Clarksburg hospital in meeting the growing demand for a well-trained health care workforce.

A unique feature of Holy Cross's Germantown hospital proposal is a partnership with Montgomery College that is designed to expand significantly the training of nurses and other health professionals. As documented in the Maryland Hospital Association's study, *Who will care? (November, 2007)*, Maryland is projected to experience a significant shortage of health professionals. Key study findings include:

- Between 2000 and 2020 demand for nurses will increase 40%, while the supply of nurses will only increase by 6%
- Although enrollment in schools of nursing in Maryland increased by 46% between 2001 and 2005, 1,850 qualified candidates who applied during this period were rejected because all available slots were filled.

The proposed project will be the first in the nation where a hospital will be located on the campus of a community college. In conjunction with the proposal to locate the new hospital on the Germantown campus, Holy Cross and Montgomery College have made a commitment to double the number of nursing graduates from Montgomery College over five years. To help achieve this goal, Holy Cross has made the following commitments:

- Make the maximum allowed pledge (\$250,000) to Montgomery College pursuant to the Maryland Hospital Association's "Who Will Care?" campaign;
- Spend an additional \$150,000 over the next three years to support educational programs at Montgomery College, with an ongoing pledge of \$100,000 per year, beginning in the fourth year;

- Offer at least 64 clinical rotations per semester to nursing and other allied health students at Montgomery College when the Germantown hospital opens;
- Give release time with full pay and benefits to at least one FTE a year to teach at Montgomery College;
- Encourage hospital employees to assist and support the instructional programs at Montgomery College through guest lecturing, student mentoring, and other activities;
- Provide instructional space for the College at the hospital or on its campus; and
- Explore the option of offering the College's nursing and other allied health programs as a part of staff development for hospital employees.

The Memorandum of Understanding ("MOU") detailing the Holy Cross/Montgomery College relationship was included as Attachment B to the Capp Affidavit, appended as Exhibit 3 of the Holy Cross Response to Comments. The unique relationship between Holy Cross and Montgomery College clearly makes locating a new hospital on the college campus in Germantown project a more effective alternative locating a new hospital in Clarksburg, as AHC proposes.

In sum, approving Holy Cross's proposed new hospital in Germantown project is a better way to meet the needs of upcounty residents for hospital-based care than approving AHC's proposal to construct a new hospital in Clarksburg.. The proposed Germantown hospital offers greater financial feasibility, less impact on other providers, improved geographic accessibility, more environmental benefits, a more significant contribution to the training of future health care workers and a stronger track record for operational performance.